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PRIME MINISTER

1 November 1985

PUBLIC EXPENDITURE

The Overall Picture

The papers by Viscount Whitelaw and John MacGregor show that despite all the problems with individual programmes, it may nevertheless be possible to achieve the political boost of a public expenditure round that goes fairly smoothly, and holds to the baselines. Last year's round may have been a factor in the run on sterling over the winter - we need to do better this year.

Housing

The crucial remaining programme is housing. The Star Chamber is convinced that because of political pressures Kenneth Baker should be given an extra £100 million (1986-87), £200 million (1987-88), and £200 million (1988-89) for improving the public sector housing stock. In return, he is to settle his other programmes at or close to the baseline.

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We recommend against conceding any increase as:

- The critics may not be placated. The extra money will seem small compared with the supposed £19 billion backlog of repairs. It might actually be easier to defend a nil increase than one which is so modest.
- It would be neat to hold housing to the baseline as well as defence. The survey would look like a solid confirmation of existing plans.

Assets Sales and the Reserve

After achieving as tough a deal as possible on departmental programmes, we then need to bridge the remaining gap to get to the baseline. The gap should not be there, but it is a tribute to the efforts of John MacGregor and the Star Chamber that it is not larger.

We recommend the highest possible figure for asset sales. There will be the normal charges of fudging the figures and selling the family silver, but asset sales are Government policy, and a big target for receipts helps drive it forward.

The more we get from asset sales, the bigger the size of the Reserve compatible with sticking to the baseline. Our

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failure to keep to the Reserve this year shows how prudent
it is to have a large figure. Large Reserves in the later
years also give more room for manoeuvre during the
politically-crucial 1986 Survey.

Conclusion

We recommend that you:

- resist pressures for increases in the housing programme;
- go for the maximum size of asset sales;
- go for a big Reserve;
- thereby achieve the baseline in total.

David Willetts
DAVID WILLETTS

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